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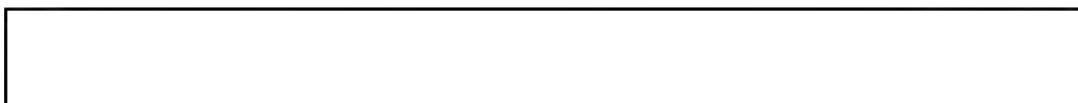
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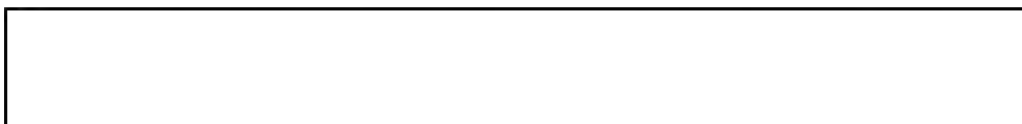
VIETNAM: Situation report. (Page 1)

LAOS: Communists show willingness to resume discussions with government about peace talks. (Page 5)



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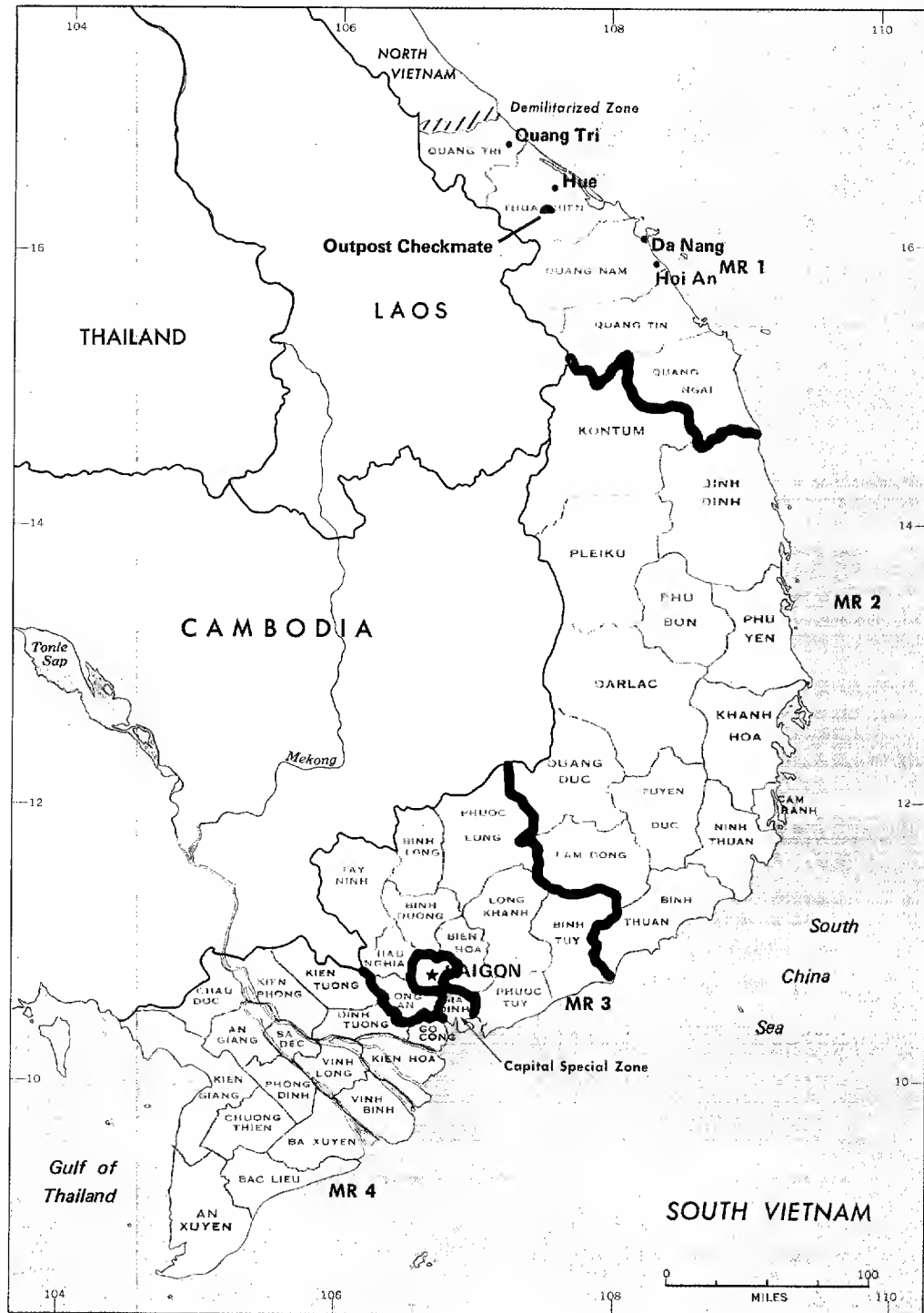
UK: Heath meeting with labor leaders may presage government moves toward incomes policy. (Page 8)



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VIETNAM: South Vietnamese troops in Quang Tri Province are encountering stiffer resistance.

Lead elements of the government force are engaged in house-to-house fighting in the southeastern section of the Quang Tri provincial capital, and marine units south of the city are battling tanks in what has become the first strong Communist resistance to the South Vietnamese counteroffensive.

Farther south, the Communists are maintaining pressure on government defensive positions near Hue; fire support bases west of the city have again been heavily shelled. and Outpost Checkmate, abandoned to the Communists on 30 June and recaptured five days later, has again been overrun.

* * * *

The pipeline North Vietnam has been constructing to carry petroleum products from China may be a dual one. This would greatly alleviate North Vietnam's petroleum import burden by allowing the simultaneous movement of major fuel requirements, motor gasoline and diesel fuel. Photography taken on 7 June in an area east of Kep shows about one mile of single open trench containing dual pipe, suggesting that the newly constructed pipeline is intended to be dual for its entire length between China and Hai Duong, where it joins the existing dual pipeline system.

* * * *

Hanoi authorities have ordered a step-up in evacuation of the city and have instituted measures for closer control of evacuees, according to a recent Radio Hanoi broadcast. An estimated two thirds of Hanoi's population moved to the countryside as the result of an evacuation order in April following the increase in US bombing, but

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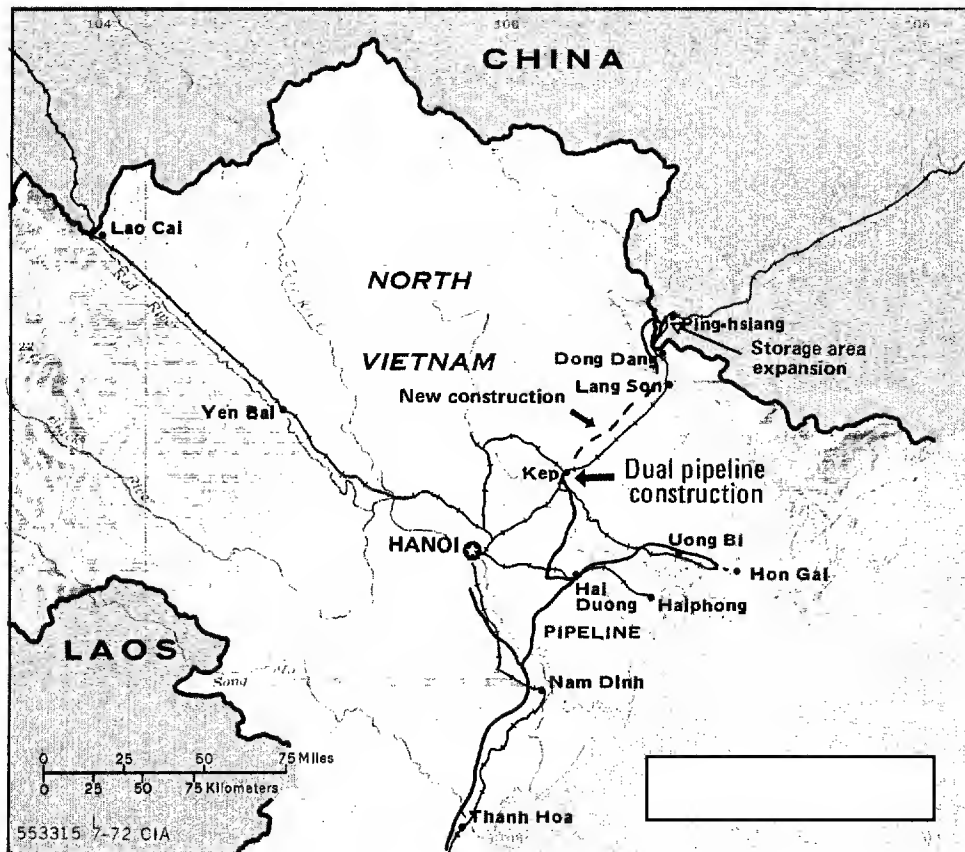
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[redacted] the flow has since been reversed; the high cost of living in rural areas and the frustrations of family separations have been largely responsible for the return to Hanoi. The new enforcement measures are probably designed to assure stricter compliance with evacuation procedures.

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[redacted]

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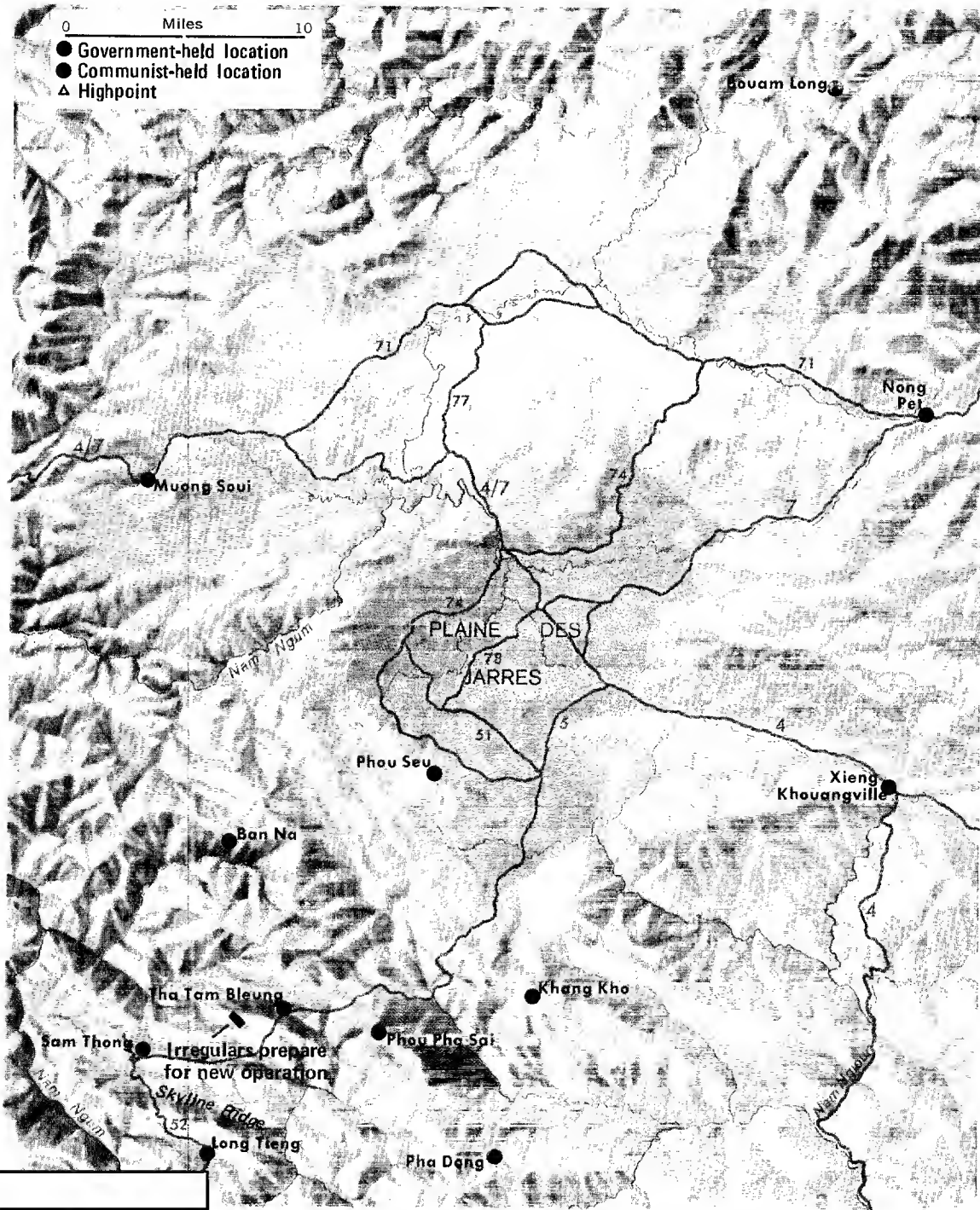
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LAOS: PLAINE DES JARRES AREA



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LAOS: The Lao Communists' special envoy apparently will return soon to Vientiane to resume discussions about peace talks.

In a message to Souvanna Phouma dated 2 July, Lao Communist leader Souphanouvong suggested that it was time to resume these discussions and proposed to return his special emissary, Souk Vongsak, to Vientiane. The Lao Government believes that the message is in response to Souvanna's proposal of 1 July that Souk return. In any case, both sides seem willing to renew talks.

Souphanouvong's message did not indicate whether the Communists were prepared now to make any fresh proposals. It does not include the usual demand for a US bombing halt throughout Laos before substantive negotiations on a settlement, but the message states that "an immediate end to US intervention and aggression in Laos" is necessary.

Souk left Vientiane last August for "consultations" in Sam Neua, claiming that the government's offensives in the Plaine des Jarres and in the south were primarily responsible for his departure. At that time, neither side had shown much willingness to compromise, and little progress had been made toward setting up substantive talks.

On the military front, the government is attempting to revive its offensive to recapture the hills southwest of the Plaine des Jarres by moving four fresh irregular battalions into the Tha Tam Bleung valley. They will attempt to dislodge the Communist troops entrenched on Phou Pha Sai, a highpoint overlooking the southern Plaine. [REDACTED]

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[UK: Prime Minister Heath's meeting this week with key union leaders--held against the background of labor strife and mounting inflationary pressures--may herald a government move toward some form of incomes policy.

The Trades Union Congress (TUC) demanded a suspension of the controversial Industrial Relations Act. Heath countered with a proposal to discuss "urgent issues affecting industrial relations and the national economy." These issues would include new labor-management conciliation machinery, protection for lower-paid workers, and a link between wages and the cost of living through "threshold" wage agreements. The union leaders, who described the atmosphere of the meeting as "glacial," were noncommittal toward Heath's suggestions. Vehement union opposition to the Industrial Relations Act and the bitter aftermath of numerous labor-government confrontations pose major obstacles to a voluntary solution. Nevertheless, a number of union leaders recognize the general threat that inflation poses for the nation, and divisions are developing within the top leadership on the Heath initiative.

Heath told the TUC that the government has limited room for maneuver on the wage front. Although the Tory leader said he still opposes direct government intervention to solve Britain's inflationary problems, he came close to threatening imposition of some form of statutory wage controls.

If Heath decides that mandatory controls are necessary, it will mark a significant shift in his political philosophy. The Prime Minister has been willing in the past to scrap untenable policies, such as those relating to Ulster and nationalized industries.

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